

GOVERNMENT COMPLIANCE AND REPORTING PROGRAM

**JOINT IPT w/ ROLLS-ROYCE
ALLISON/DCMC/DCAA**

PROGRAM OVERVIEW

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Introduction

On 5 January 1998, Rolls-Royce Allison (RRA) implemented the first phase of a new business management system called SAP (Systems, Applications, and Products). This system integrates almost all components of a business, including procurement, manufacturing management, production planning and execution, customer order management, and financial/management accounting and reporting. This system literally replaced approximately 40 legacy systems at RRA into one integrated system. The implementation of the first phase of SAP took approximately 18 months to complete. During this implementation phase, the Government was involved only at a very high level. This involvement was not enough to really understand the true impact of the implementation. As a result, several problems and issues arose throughout 1998. Not only was this due to the Government's lack of detailed involvement, but also due to the complexity of the system and both the Government and contractor's lack of education of the possible impacts involved in such a vast implementation. Rolls-Royce Allison initially had some misunderstanding of what SAP required for implementation which led to some unnecessary problems. Some of these problems and issues that arose included:

- Cost accounting changes which resulted in several things;
 - a) changes to the labor and overhead rates which affected the cost type programs,
 - b) major changes to the contractor's Disclosure Statement, which left the contractor and DCMC with an unapproved Disclosure Statement for several months,
 - c) lack of a Cost Impact Statement prior to accounting changes,
 - d) lack of current forward pricing rate agreements due to unavailability of supporting data and qualified DCAA audits due to an unapproved Disclosure Statement,
 - e) inaccurate data input into the SAP system for use in Cost Performance Reports and for monitoring actual labor and overhead rates,
 - f) and, CAS and FAR issues and potential noncompliances.
- Lack of SAP education and training,

- Restricted Government access to SAP data required to perform daily monitoring of Contractor,
- Lack of Contractor knowledge of the new system, along with a significant turnover of experienced employees knowledgeable of SAP software, causing delays in responding to the Government on the above issues.

Several attempts were made at trying to resolve the above ongoing issues throughout 1998, but they were unsuccessful.

In November 1998, the Government was notified of additional cost accounting changes to be implemented in January 1999. These accounting changes were not due to SAP, but due to RRA's change in management philosophy. However, once again, this would result in similar issues and problems that were experienced in 1998, along with the existing unresolved outstanding issues. January of 1999 came and went, without resolution in sight. The Government and RRA finally decided that the only way to attempt to resolve these issues was to create a joint IPT between DCMC, DCAA, and RRA. As a result, the Government Compliance and Reporting Program was launched on 1 March 1999.

Team Development

The Government Compliance and Reporting Program team was developed on 1 March 1999. The core team consisted of 3 Rolls-Royce Allison employees, 1 DCAA representative, 1 DCMC representative, and a SAP consultant. The core team members were assigned to participate on a full-time basis. In addition to the core team, a few part-time consultants were assigned from Rolls-Royce Allison and EDS. A Steering Committee was also developed to assist the team in decision making. This Steering Committee consisted of leaders from all areas represented on the team (RRA, DCMC, and DCAA). In order to maintain DCAA's independence, the DCAA representative sat on the Steering Committee as a non-voting member. The roles and responsibilities of the Steering Committee included the following:

- champion the program,
- remove any "roadblocks" the team experienced in accomplishing their goals,

- and, apply the 48-hour rule, which required that the Steering Committee respond to any question or issue presented by the team within 48 hours.

The key to making this program a success was committed resources, not only from the Steering Committee, but especially from the core team members. In order to accomplish this, the following rules had to be enforced for the team, which included:

- full-time commitment for 3 months (1 March – 7 June),
- relocation of team to one central area,
- five-minute rule, which allowed the team members to only discuss prior work issues up to five minutes at a time.

Requirement's Gathering

After the team was developed, the next step was to start gathering requirements to help in the definition of the program scope. From 8 March to 31 March the team held several requirements workshops and conducted several interviews. Four DCMC and 6 DCAA workshops were held. The first workshop was a joint workshop covering the RRA Financial Overview, which included; a RRA ERP overview, a SAP financial overview, RRA cost flows for 1998 and 1999, SAP master data information, and the next steps of starting to define compliance/audit issues. From there, smaller, more-focused workshops were set up with DCAA and DCMC to further define the information and training needs of the Government. The agenda/objectives of these workshops were to review the Government Compliance and Reporting Program, obtain an understanding of DCAA's/DCMC's function, determine the current RRA non-compliance issues, determine what additional information was needed by the Government from RRA, and to identify the Government's training needs.

The DCAA workshops held covered the following audit areas; incurred cost and post award, manufacturing and engineering rates, Mandatory Annual Audit Requirements (MAAR), material verification, Earned Value Management System (EVMS), proposal review, floor checks, and Material Management Accounting System (MMAS). The DCMC workshops followed the same agenda and covered the requirements in the following areas; production,

engineering, and financial, which included pricing and contracts. In addition to the Government's requirements, several interviews were held with approximately 25 key individuals from RRA and EDS, and consultants from SAP. These interviews consisted of gathering similar information as mentioned above, along with obtaining any security issues that RRA may have with sharing SAP data with the Government. All of the information and issues from these workshops were recorded and used to define the scope of the program.

Scope Definition

On 31 March 1999, the scope was defined. The team's activities were divided into 2 areas: Education and Training; and, Compliance and Reporting. These areas were then broken down into the following specific deliverables:

Education and Training

- SAP Security Profile
- Education & Training

Compliance and Reporting

- 1998 vs. 1999 Rates Analysis
- Annualization of 1998 Engineering Rates
- "Preliminary" Actual Rate Process
- Roadmap: "True" Actual Rate Process
- Roadmap: Other Government Reporting needs

These two areas were each assigned a Control Account Manager from RRA, along with a Government representative and other full-time/part-time team members.

On 7 April 1999, the team held a Kickoff Meeting to present the scope of activities to the Steering Committee for their approval. The scope of activities included a description of the deliverables, the milestone dates, and the resources required for the deliverables. The Steering Committee approved all deliverables, the milestone dates, and agreed to have all identified resources engaged as of 12 April 1999.

Deliverable Execution

Over the next two months, the team focused on executing the deliverables defined. A Microsoft Project file was developed detailing the schedule for all the tasks planned for the deliverables. The core team members met on a weekly basis to discuss the progress and update the schedule for each of the deliverables.

The following explains each deliverable, why it was chosen, how it was executed, and the benefits/lessons learned to both the Government and RRA.

SAP Security Profile

Prior to this IPT, the Government had very limited access to the data in SAP. This caused the Government to have to rely on RRA to provide them with data to do their daily auditing activities. Prior to the SAP implementation, several reports were provided to the Government on a monthly basis. Many of these reports were discontinued when SAP was implemented. This was mainly due to the difficulty in pulling the data out of SAP and putting it into the same format as previously provided by their legacy systems. As a result, insight into RRA's performance was very limited. Because SAP access was not readily available, this became a very big problem. Not only because the access was limited, but also because the Government was not properly trained to retrieve the data in the areas where access was available.

The process to obtain adequate access began with gathering inputs from RRA via a security questionnaire. The goal of this questionnaire was to determine what RRA felt the Government should not have access to. The consensus was to not provide commercial, profit & loss, forecasting, and cash information to the Government. Due to the nature of the audits required by the Government and also due to the makeup of SAP, limited access on these particular areas was not possible. With the help of the Steering Committee, the team was able to provide a SAP security profile with read only access to the Government. Their decision was based on the fact that statutes, implemented regulations, contract terms, and subpoenas allow the Government access to any information that they may need. With respect to maintaining the confidentiality of Rolls-Royce Allison's data, federal statute prohibits the Government from

permitting unauthorized data disclosure with possible criminal penalties for violation. This new SAP security profile met two objectives. First, the SAP security profile provides the Government with the capability to access, in a display only manner, the data required for work related tasks. Second, the SAP security profile assists RRA reach its goal of lowering the number of security profiles the employees utilize. Overall, this new security profile will benefit both the Government and RRA by increasing efficiencies.

Once approval for read only access was obtained, the team extensively tested the profile to ensure that the essential access was available and that it was, in fact, a read ONLY profile. The team worked with EDS personnel during this testing phase to fix any problems encountered. The Government SAP IDs were then updated with the new profile. The change in this profile was then communicated to the Government and to the RRA employees who responded to the SAP security questionnaire.

The lessons learned from this deliverable included the following:

- Obtain security profile approval as soon as possible, and
- Extensively test the profile before implementing.

Education & Training

The Education & Training deliverable was identified to provide education and training to DCAA, DCMC (finance, production, and engineering,) and their RRA counterparts. The Government and respective RRA counterparts had received minimal education and training prior to this program. There was a lack of understanding of RRA data, the company structure, and the company's vision, along with a lack of SAP training.

While the security profile was being developed, the Education & Training deliverables were also being worked. Additional part-time resources were added to the team to assist with the development of the training scripts and materials. As mentioned above in the requirement's gathering phase, several workshops were held with the Government. One of the objectives of these workshops was to identify training needs. These needs were compiled and training courses in the following SAP modules were developed:

- FI – Financial Overview, Reporting, Accounts Payable/Receivable

- CO – Cost Center Accounting, Assessments
- PS – Project Systems Overview
- PP – Production Planning Overview
- MM – Material Master Overview
- MRP – Material Requirements Planning
- Also, a SAP Overview/RRA familiarization course was developed which included the basics of SAP, RRA organization charts, company structure, etc.

Eight training courses were provided over a two-week period covering the above modules. These courses were delivered using 1 SAP and 3 RRA subject matter experts. Eleven DCMC employees, 9 DCAA employees, and 8 RRA points of contact attended the training courses. An Information Handbook was developed and provided to assist in training and for future reference. This handbook was also made available for any interested RRA employees and other on-site Government staff.

The training courses had a 92% attendance rate and course evaluations received above average scores. Overall, the Education & Training deliverable was very successful.

Now that the Government and RRA have been trained, efficiencies in everyday activities should increase for both parties. The Government no longer has to rely on RRA to provide all required data to perform their audits. There is now an increased understanding of the SAP data available, the company structure, and RRA's vision.

The team identified issues, which arose from the training sessions, and solutions were sent to the training participants via e-mail shortly after training. On-going education and training for the Government will be provided to the DCMC and DCAA core team members.

The lessons learned from this deliverable include the following:

- Training handbook is necessary,
- Must educate, as well as train,
- Identify Government POC for continuous training,
- And, timely training is necessary.

1998 vs. 1999 Analysis

This deliverable was recommended by RRA management as a necessary analysis to determine the initial impact of the 1999 cost accounting changes to the cost pools and rates. When SAP was implemented in January 1998, several cost accounting changes occurred. In 1999, additional accounting changes were proposed. These changes significantly changed the rates proposed for 1999 and forward. The analysis performed was a “high level” analysis of the movement and differences in costs between 1998 and 1999. Rolls-Royce Allison, DCAA, and DCMC was involved in the development of this analysis. The results gave both RRA and the Government a better understanding of the impact of the 1999 accounting changes. This analysis has provided benefit to the Government in their current review and negotiation of the forward pricing rates and the contractor’s Disclosure Statement. It is also currently being used as a starting point for the contractor’s preparation of the 1999 Cost Impact Statement.

Annualization of 1998 Engineering Rates

Cost Accounting Standard 406 requires that the contractor consistently use his established cost accounting period (12 months) for contract cost estimating, accumulating, and reporting. Annualized rates reduce the effects of variations in the flow of costs within each cost accounting period for each cost center. It is required that all Government contractors use annualized rates for all their Government contracts. The current version of SAP that RRA is using does not calculate annualized rates. In an attempt to comply with CAS 406, the Government Compliance and Reporting Team took this on as a necessary deliverable. This deliverable consisted of developing and proceduralizing a process to annualize the 1998 engineering rates. With the help of RRA and SAP personnel, along with DCAA and DCMC oversight, an annualization process was developed and implemented using a SAP planning version. Adjustments were made to the cost type and IR&D engineering programs and were reflected in SAP. Rolls-Royce Allison’s Earned Value Management System tool, Artemis, was updated along with the Cost Performance Reports required by the buying activities.

“Preliminary” Actual Rate Process - Engineering

Due to Rolls-Royce Allison's global change in vision, engineering cost center variances were expensed periodically to the respective organization's income statement instead of to the engineering project. As a result, the costs reported in SAP and the Cost Performance Reports (as downloaded from SAP) were based on budgeted rates. The variances between actual and budgeted costs were not assigned to the projects. Cost Accounting Standard's 407 and 418 require that all variances be applied to their respective projects. In order to meet this CAS requirement, a process was developed and proceduralized by the team to obtain "preliminary" actuals/rates on the engineering cost type and IR&D contracts. The term "preliminary" is used due to the fact that the current proposed 1999 accounting changes have not been approved by the ACO. This process has and will be performed on a quarterly basis and adjustments will be made to the projects at this time. This process will also take care of the annualization process for the 1999 engineering rates. As these rates are updated, billing and FPRA rates can be reviewed by the Government and adjusted if necessary.

Roadmaps - "True" Actual Rate Process & Other Government Reporting Needs

Additional requirements were identified as deliverables for the Government Compliance and Reporting Program. Due to the lack of time and resources to develop and implement the above deliverables, these additional requirements were handled by developing roadmaps only. These roadmaps documented the process of actually performing these deliverables. They identified process owners, solutions, and timetables for each deliverable.

One of the roadmaps identified was to develop a "True" Actual Rate Process to be performed at the end of the 1999 calendar year. This will be a follow-on process to the "Preliminary" Actual Rate Process. Once the 1999 Cost Impact Statement and the 1999 Disclosure Statement has been reviewed and approved by the ACO, the "true" rates can be determined based on the approved accounting practices. These rates will be used to update the "true" actual costs to the engineering cost type contracts.

The final deliverable was to develop a roadmap for Other Government Reporting Needs. As identified during the Government requirements workshops, there were several reports that are currently not available in SAP, but are required by the Government to perform

daily surveillance of the contractor. A list of reports and RRA POCs were identified for each of these reports and a process to make these reports available was developed.

These roadmaps have been given to their assigned process owners and the Government core team POCs will ensure that these deliverables be carried out in a timely manner.

Program Reviews

During the execution of the above deliverables, the team held an In-Process Review on May 7, 1999 with the Steering Committee. This review was provided to give the status of all the deliverables to date and to present the 1998 vs. 1999 Analysis deliverable.

A Final Wrap-Up briefing was held on June 7, 1999 with the Steering Committee. The objective of this briefing was to review and understand what was delivered, to have the Steering Committee members sign off on all tasks delivered, and to understand what the next steps were in providing the remaining deliverables. All voting members of the Steering Committee signed off on the team's deliverables.

Program Summary

Overall, this program was very successful. This was mainly due to maintaining an integrated committed team of DCAA, DCMC, and RRA resources. This has provided a foundation for resolution of future issues and has greatly improved the Government's relationship with RRA.